Should Speculators "Sell in May and Go Away"?

A Monday Morning Musing from Mickey the Mercenary Geologist

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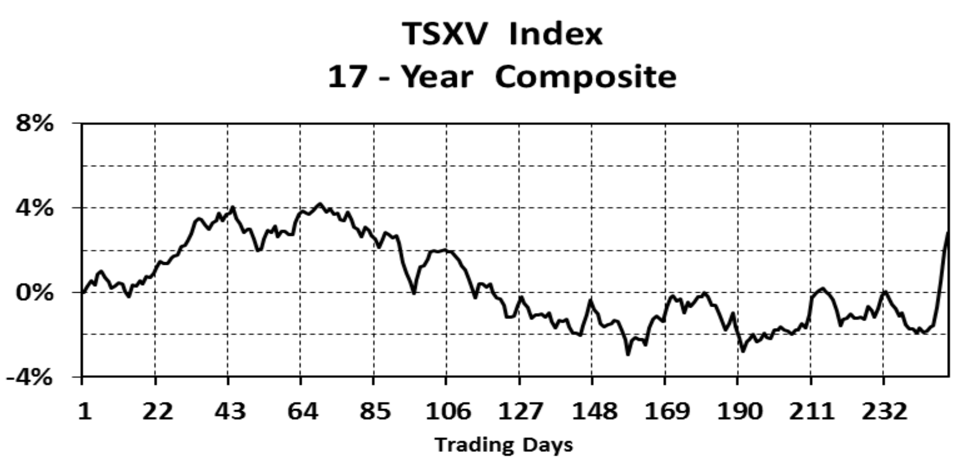
Our research and analysis on the seasonality of the Toronto Venture Exchange continues today (**Mercenary Musing, June 13, 2016**). We update the yearly composite chart and present our investigation into the Venture's performance with respect to the market maxim "sell in May and go away".

This well-known adage is based on historical underperformance of major financial markets during the summer doldrums season from early June to Labor Day. During this period, there is less market participation because many in the financial and investment communities are on vacation. Trading volumes are lower, news flow is diminished, and many stocks drift lower or put in lackluster performances.

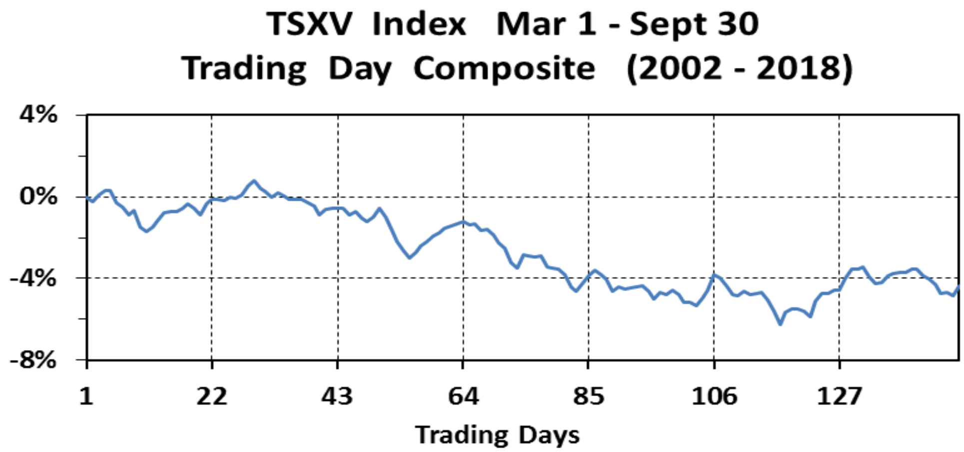
The trading strategy of selling prior to the summer season and returning to the equities markets in the early fall is mostly focused on medium to large cap companies. In this treatise, we investigate if it is pertinent to the nanocap, junior resource-dominated Toronto Venture Exchange Index (TSXV).

Here is the yearly composite performance of the Index over its history from 2002 to 2018. Recall that each 21 trading days represents about one calendar month over the course of a given year.



Last fall, we proposed a profitable trading strategy for junior explorers based on the composite performance (**Mercenary Musing, November 27, 2018**).

Now let's assess the popular "sell in May go away" trading strategy. This is the 17-year TSXV Index composite normalized from March 1 thru September 30:



We glean the following from this chart:

- There is a brief and minor uptick during the first days of March coincident with the Prospectors and Developers Conference; i.e., the TSXV peaks from its tax-loss season low in mid-December.
- The Index falls off to mid-March from selling pressure; this is the so-called "PDAC curse".
- It recovers and vacillates thru late April.
- From early to late May there is a downtick that culminates in a v-shaped pattern and a modest recovery begins; this is the "sell in May" phenomena.
- The Index loses ground during the summer doldrums from the beginning of June to late August.
- An uptick occurs thru the third week of September as speculators return to the markets after Labor Day.
- Buying falls off and the Index gives back some gains in late September.

Remember that the Index is a weighted measure of the 400 largest capitalized TSXV stocks. Other smaller cap and low liquidity juniors with few bids often sell off dramatically in the summertime. This situation can be exacerbated by hedge and equity funds with large positions dumping stock on the downtick with little regard for price. There are two reasons for this behavior:

- Massive and indiscriminate liquidations to cover share redemptions during the slow summer season;

- So-called "investment funds" and retail brokers exiting private placements when free-trading in order to recoup the investment and play the warrant call with zero risk.

Contrary to the well-documented May-September trading pattern, our 17-year seasonality chart shows that to maximize profits, it is best to exit vulnerable juniors upon any uptick in mid-April.

One could then buy select issuers in mid-August that were sold off during the summer and profit by selling during the general post-Labor Day market recovery.

Herein, we provided a way to game spring to summer patterns for the junior resource sector market. You must do your own due diligence and research to determine if this trading idea meets your speculative risk/reward goals and individual profile.

May all your trades be to the upside.

Ciao for now,

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Acknowledgment: Lukas Smith is the research assistant for **MercenaryGeologist.com**.

The **Mercenary Geologist Michael S. "Mickey" Fulp** is a Certified Professional Geologist with a B.Sc. in Earth Sciences with honor from the University of Tulsa, and M.Sc. in Geology from the University of New Mexico. Mickey has 35 years of experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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